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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

July 2001: budgetary surplus of \$0.8 billion

There was a budgetary surplus of \$0.8 billion in July 2001, down \$1.0 billion from the revised surplus of \$1.8 billion in July 2000.¹ This year-over-year decline was attributable to lower budgetary revenues (down \$0.5 billion) and higher program spending (up \$0.7 billion), dampened slightly by lower public debt charges (down \$0.2 billion).

April 2001 to July 2001: budgetary surplus of \$10.7 billion

The budgetary surplus was estimated at \$10.7 billion for the April 2001 to July 2001 period, compared to the surplus of \$10.5 billion reported in the same period of 2000-01. The increase in the year-over-year surplus was attributable to higher personal income tax settlement payments with respect to the 2000 taxation year. These payments related to extraordinary developments, primarily the strong increase in capital gains for the 2000 taxation year. This impact has been largely offset by lower personal income tax revenues from employment income (primarily due to the impact of tax reduction measures) and higher program spending (particularly higher transfers to other levels of government).

¹ The surplus for July 2000 was revised down from the originally reported estimate of \$3.2 billion to \$1.8 billion. This was due to a misclassification of revenues between July 2000 and August 2000. The August 2000 budgetary balance will be adjusted accordingly.

July 2001: budgetary results

Budgetary revenues decreased \$0.5 billion, or 3.3 per cent, in July 2001 on a year-over-year basis, primarily attributable to lower personal income tax revenues.

- Personal income tax revenues declined by \$1.1 billion, or 15.0 per cent, primarily reflecting timing factors affecting revenues reported in July and August of 2000 (July was up strongly while August receipts were lower) and the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*. In addition, payments under the Canada Child Tax Benefit were higher due to enhancements in previous budgets.
- Corporate income tax revenues were up \$0.3 billion, or 19.6 per cent. As noted in previous Fiscal Monitors, the current year-over-year increase primarily reflects the tax instalment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01 monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.



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Table 1

Summary statement of transactions

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	14,334	13,868	59,565	61,498
Program spending	-9,066	-9,741	-35,343	-37,557
Operating surplus	5,268	4,127	24,222	23,941
Public debt charges	-3,499	-3,345	-13,703	-13,250
Budgetary balance (deficit/surplus)	1,769	782	10,519	10,691
Non-budgetary transactions	2,421	1,041	-7,377	-9,666
Financial requirements/source (excluding foreign exchange transactions)	4,190	1,823	3,142	1,025
Foreign exchange transactions	-899	-443	1,268	-131
Net financial balance	3,291	1,380	4,410	894
Net change in borrowings	-7,636	-1,589	-12,921	-10,573
Net change in cash balances	-4,345	-209	-8,511	-9,679
Cash balance at end of period			4,440	3,499

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Numbers for July 2000 have been revised (see footnote in box on first page).

- Employment insurance (EI) premium revenues were slightly lower, as the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000) more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up \$0.1 billion, or 3.8 per cent. This increase reflected strong advances in both customs import duties and sales and excise taxes. The increase in the latter was primarily due to the increase in tobacco excise taxes, which became effective April 6, 2001. Goods and services tax (GST) revenues declined 4.3 per cent, primarily due to an increase in refunds related to under-reporting in previous periods, as well as higher quarterly tax credits, reflecting the indexation of these credits, as announced in the February 2000 budget.
- Non-tax revenues were up strongly, primarily reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$0.7 billion, or 7.4 per cent, reflecting strong increases in transfers to persons and other levels of government. Among the major components:

- Major transfers to persons were up \$0.3 billion, or 11.2 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up \$0.4 billion, or 20.6 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.

Table 2

Budgetary revenues

	July		Change	April to July		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	7,476	6,358	-15.0	29,319	29,217	-0.3
Corporate income tax	1,695	2,028	19.6	7,875	8,859	12.5
Other income tax revenue	298	291	-2.3	1,109	1,203	8.5
Total income tax	9,469	8,677	-8.4	38,303	39,279	2.5
Employment insurance premium revenues	1,667	1,654	-0.8	6,976	6,981	0.1
Excise taxes and duties						
Goods and services tax	1,739	1,664	-4.3	8,233	8,468	2.9
Customs import duties	201	250	24.4	656	923	40.7
Sales and excise taxes	658	784	19.1	2,738	2,959	8.1
Total excise taxes and duties	2,598	2,698	3.8	11,627	12,350	6.2
Total tax revenues	13,734	13,029	-5.1	56,906	58,610	3.0
Non-tax revenues	600	839	39.8	2,659	2,888	8.6
Total budgetary revenues	14,334	13,868	-3.3	59,565	61,498	3.2

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was down slightly, as declines in payments to Crown corporations and operating and capital expenditures more than offset higher subsidies and other transfers. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, were down \$0.2 billion, or 4.4 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

April 2001 to July 2001: budgetary results

Over the first four months of fiscal year 2001-02, the budgetary surplus was estimated at \$10.7 billion, up \$0.2 billion from the surplus reported in the same period of 2000-01. This increase in the surplus primarily reflects higher personal income tax settlement payments with respect to the 2000 taxation year.

Budgetary revenues were up \$1.9 billion, or 3.2 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were marginally lower, down \$0.1 billion, or 0.3 per cent. This decline reflects the timing of payments between July and August of last year as well as the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. These included the reduction in personal income tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, the restoration of full indexation of the personal income tax system and related benefits, and increases in the Canada Child Tax Benefit. Compensating the impact of these factors were higher final tax payments, received in April and May, with respect to the 2000 taxation year, reflecting extraordinary developments in taxation year 2000, primarily strong increases in capital gains.

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Table 3

Budgetary expenditures

	July			April to July		
	2000	2001	Change	2000-01	2001-02	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,012	2,103	4.5	7,948	8,306	4.5
Employment insurance benefits	809	1,035	27.9	3,511	3,926	11.8
Total	2,821	3,138	11.2	11,459	12,232	6.7
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	4,500	5,767	28.2
Fiscal transfers	978	1,045	6.9	3,862	4,143	7.3
Alternative Payments for Standing Programs	-206	-200	-2.9	-822	-800	-2.7
Total	1,897	2,287	20.6	7,540	9,110	20.8
Direct program spending						
Subsidies and other transfers						
Agriculture	27	41	51.9	54	422	681.5
Foreign Affairs	102	177	73.5	346	503	45.4
Health	99	121	22.2	353	394	11.6
Human Resources Development	115	123	7.0	411	362	-11.9
Indian and Northern Development	262	325	24.4	1,743	1,496	-14.2
Industry and Regional Development	82	104	26.8	365	430	17.8
Veterans Affairs	123	127	3.3	478	493	3.1
Other	73	25	-65.8	883	568	-35.7
Total	883	1,044	18.2	4,633	4,668	0.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	86	80	-7.0	371	400	7.8
Canada Mortgage and Housing Corporation	150	158	5.3	620	632	1.9
Other	128	122	-4.7	475	510	7.4
Total	364	360	-1.1	1,466	1,542	5.2
Operating and capital expenditures						
Defence	948	908	-4.2	2,979	3,227	8.3
All other departmental expenditures	2,153	2,004	-6.9	7,266	6,778	-6.7
Total	3,101	2,912	-6.1	10,245	10,005	-2.3
Total direct program spending	4,348	4,316	-0.7	16,344	16,215	-0.8
Total program expenditures	9,066	9,741	7.4	35,343	37,557	6.3
Public debt charges	3,499	3,345	-4.4	13,703	13,250	-3.3
Total budgetary expenditures	12,565	13,086	4.1	49,046	50,807	3.6
Memorandum item:						
Total transfers	5,601	6,469	15.5	23,632	26,010	10.1

- Corporate income tax revenues were up \$1.0 billion, or 12.5 per cent. In contrast, corporate profits are down on a year-over-year basis, which suggests that the current experience reflects the effects of the remittance procedures and should be revised once corporations adjust their remittances to reflect weaker profits in 2001.
- EI premium revenues were up marginally, as the decline in premium rates for 2000 and 2001 virtually offset the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased by \$0.7 billion, or 6.2 per cent. GST revenues were up 2.9 per cent, somewhat less than the underlying increase in consumer expenditures. Customs import duties were up 40.7 per cent, while sales and excise taxes were up 8.1 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 8.6 per cent.

Program spending increased by \$2.2 billion, or 6.3 per cent, in the April 2001 to July 2001 period, compared to the same period last year.

- Transfers to persons were up 6.7 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 20.8 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 0.8 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges were down 3.3 per cent, reflecting the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of \$1.0 billion (excluding foreign exchange transactions) for April 2001 to July 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.7 billion in the first four months of 2001-02, compared to a net requirement of \$7.4 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of \$10.7 billion and a net requirement of \$9.7 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$1.0 billion in the April 2001 to July 2001 period, compared to a source of \$3.1 billion in the same period last year.

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Table 4

The budgetary balance and financial requirements/source

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,769	782	10,519	10,691
Loans, investments and advances				
Crown corporations	-112	-16	83	217
Other	49	-26	162	7
Total	-63	-42	245	224
Specified purpose accounts				
Canada Pension Plan Account	-865	-418	-890	-861
Superannuation accounts	375	50	1,017	-446
Other	11	77	-216	53
Total	-479	-291	-89	-1,254
Other transactions	2,963	1,374	-7,533	-8,636
Total non-budgetary transactions	2,421	1,041	-7,377	-9,666
Financial requirements/source (excluding foreign exchange transactions)	4,190	1,823	3,142	1,025
Foreign exchange transactions	-899	-443	1,268	-131
Net financial balance	3,291	1,380	4,410	894

Table 5

Net financial balance and net borrowings

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	3,291	1,380	4,410	894
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-3,075	400	6,151	-1,641
Canada Savings Bonds	-151	-70	-553	-236
Treasury bills	-4,200	-1,500	-16,750	-6,100
Other	250		925	-4
Total	-7,176	-1,170	-10,227	-7,981
Payable in foreign currencies				
Marketable bonds			-2,174	-1,576
Notes and loans				-41
Canada bonds	-435	-419	-520	-802
Canada notes				-173
Total	-435	-419	-2,694	-2,592
Net change in borrowings	-7,611	-1,589	-12,921	-10,573
Change in cash balance	-4,320	-209	-8,511	-9,679

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	July 31, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,511	34,875	-8,636
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,246	-446
Canada Pension Plan (net of securities)	6,409	5,548	-861
Other pension and other accounts	7,080	7,133	53
Total pension and other accounts	143,181	141,927	-1,254
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	292,986	-1,641
Treasury bills	88,700	82,600	-6,100
Canada Savings Bonds	25,753	25,517	-236
Other	3,473	3,469	-4
Subtotal	412,553	404,572	-7,981
Payable in foreign currencies	33,171	30,579	-2,592
Total unmaturred debt	445,724	435,151	-10,573
Total interest-bearing debt	588,905	577,078	-11,827
Total liabilities	632,416	611,953	-20,463
Assets			
Cash and accounts receivable	18,612	8,933	-9,679
Foreign exchange accounts	50,010	50,141	131
Loans, investments and advances (net of allowances)	14,268	14,044	-224
Total assets	82,890	73,118	-9,772
Accumulated deficit (net public debt)	549,526	538,835	-10,691

Note: Assumes fiscal balance of \$15 billion for 2000-01.

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Net financial source of \$0.9 billion for April 2001 to July 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.1 billion in the first four months of 2001-02, compared to a net source of \$1.3 billion in the same period in 2000-01.

With a budgetary surplus of \$10.7 billion, a net requirement of \$9.7 billion from non-budgetary transactions and a net requirement of \$0.1 billion from foreign exchange transactions, there was a net financial source of \$0.9 billion in the April 2001 to July 2001 period, compared to a net source of \$4.4 billion in the same period in 2000-01.

Net borrowings down \$10.6 billion for April 2001 to July 2001

Although there was a net financial source of only \$0.9 billion in the first four months of 2001-02, the Government did reduce its holding of market debt by \$10.6 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of July 2001 they stood at \$3.5 billion, down \$9.7 billion from March 31, 2001.

Note to Readers:

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at www.fin.gc.ca.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

August 2001: budgetary surplus of \$396 million

There was a budgetary surplus of \$396 million in August 2001, down \$37 million from the revised surplus of \$433 million in August 2000.¹ Among the major components, on a year-over-year basis, budgetary revenues were up \$330 million, public debt charges declined \$168 million, while program spending increased \$535 million.

April 2001 to August 2001: budgetary surplus of \$11.1 billion

The budgetary surplus was estimated at \$11.1 billion for the April 2001 to August 2001 period, virtually unchanged from the surplus of \$11.0 billion reported in the same period of 2000-01. However, the results for 2001-02 include one-time revenue gains associated with higher personal income taxes paid on filing with respect to the strong increases in capital gains recorded in 2000. Given the monthly profile of receipts, a surplus is expected in September 2001, although smaller than that recorded in September 2000. Thereafter, the cumulative surplus will begin to fall, in part reflecting the impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. In addition, the impact of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year.

¹ The budgetary balance for August 2000 was revised from the originally reported deficit of \$1.2 billion to a surplus of \$433 million. This was due to a misclassification of revenues between July 2000 and August 2000.

August 2001: budgetary results

Budgetary revenues increased by \$330 million, or 2.5 per cent, in August 2001 on a year-over-year basis. Among the major components:

- Personal income tax revenues increased \$315 million, or 5.7 per cent, primarily reflecting timing factors, which depressed revenues reported in August 2000. This more than offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues were up \$93 million, or 4.9 per cent, primarily reflecting much lower refunds paid in August 2001 than in August 2000. As noted in previous Fiscal Monitors, the current year-over-year increase primarily reflects the tax instalment procedures, as operating profits of Canadian

corporations declined in the first quarter of 2001. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01 monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.

- Employment insurance (EI) premium revenues were slightly lower, as the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000) more than offset the impact of the growth in the number of people employed and therefore paying premiums.



The Fiscal Monitor

Table 1

Summary statement of transactions

	August		April to August	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	12,975	13,305	72,540	74,802
Program spending	-9,021	-9,556	-44,363	-47,112
Operating surplus	3,954	3,749	28,177	27,690
Public debt charges	-3,521	-3,353	-17,225	-16,603
Budgetary balance (deficit/surplus)	433	396	10,952	11,087
Non-budgetary transactions	1,375	457	-6,010	-9,213
Financial requirements/source (excluding foreign exchange transactions)	1,808	853	4,942	1,874
Foreign exchange transactions	-2,373	-1,022	-1,105	-1,153
Net financial balance	-565	-169	3,837	721
Net change in borrowings	6,729	5,767	-6,193	-4,806
Net change in cash balances	6,164	5,598	-2,356	-4,085
Cash balance at end of period			10,604	9,097

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Numbers for August 2000 have been revised (see footnote in box on first page).

- Excise taxes and duties were down \$178 million, or 5.5 per cent. Goods and services tax (GST) revenues were down \$157 million, solely attributable to higher refunds and rebates. Customs import duties were down \$182 million, reflecting the timing of receipts. Sales and excise taxes were up \$161 million, attributable to higher receipts from both energy and tobacco excise taxes and duties, the latter reflecting the increase in tobacco excise taxes, which became effective April 6, 2001.
- Non-tax revenues were up marginally.

The year-over-year increase in program spending of \$535 million, or 5.9 per cent, primarily reflected strong increases in transfers to persons and other levels of government, dampened by lower direct program spending

- Major transfers to persons were up \$320 million, or 11.6 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries.

- Major transfers to other levels of government were up \$390 million, or 20.6 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was down \$175 million, or 4.0 per cent, as declines in payments to Crown corporations and operating and capital expenditures more than offset higher subsidies and other transfers. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, were down \$168 million, or 4.8 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Table 2

Budgetary revenues

	August		Change	April to August		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	5,543	5,858	5.7	34,862	35,075	0.6
Corporate income tax	1,879	1,972	4.9	9,754	10,831	11.0
Other income tax revenue	166	258	55.4	1,275	1,462	14.7
Total income tax	7,588	8,088	6.6	45,891	47,368	3.2
Employment insurance premium revenues	1,520	1,492	-1.8	8,497	8,473	-0.3
Excise taxes and duties						
Goods and services tax	2,062	1,905	-7.6	10,295	10,374	0.8
Customs import duties	463	281	-39.3	1,119	1,204	7.6
Sales and excise taxes	703	864	22.9	3,443	3,823	11.0
Total excise taxes and duties	3,228	3,050	-5.5	14,857	15,401	3.7
Total tax revenues	12,336	12,630	2.4	69,245	71,242	2.9
Non-tax revenues	639	675	5.6	3,295	3,560	8.0
Total budgetary revenues	12,975	13,305	2.5	72,540	74,802	3.1

April 2001 to August 2001: budgetary results

Over the first five months of fiscal year 2001-02, the budgetary surplus was estimated at \$11.1 billion, up \$135 million from the surplus reported in the same period of 2000-01. Budgetary revenues were up \$2.3 billion, or 3.1 per cent, while public debt charges declined by \$622 million, or 3.6 per cent. These positive developments on the budgetary balance were largely offset by higher program spending, up \$2.7 billion, or 6.2 per cent.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections were marginally higher, up \$213 million, or 0.6 per cent. This increase was entirely attributable to higher final tax payments, received in April and May, with respect to the 2000 taxation year, reflecting extraordinary developments in taxation year 2000, primarily strong increases in capital gains. However, this one-time revenue gain was largely offset by the impact of the tax reduction

measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. These included the reduction in personal income tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, the restoration of full indexation of the personal income tax system and related benefits, and increases in the Canada Child Tax Benefit.

- Corporate income tax revenues were up \$1.1 billion, or 11.0 per cent. In contrast, corporate profits are down on a year-over-year basis, which suggests that current collections reflect the effects of the remittance procedures and should be revised once corporations adjust their remittances to reflect weaker profits in 2001.
- EI premium revenues were marginally lower, as the decline in premium rates more than offset the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.

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Table 3

Budgetary expenditures

	August		Change	April to August		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,884	2,074	10.1	9,833	10,380	5.6
Employment insurance benefits	874	1,004	14.9	4,385	4,929	12.4
Total	2,758	3,078	11.6	14,218	15,309	7.7
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	5,625	7,208	28.1
Fiscal transfers	978	1,045	6.9	4,839	5,190	7.3
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,028	-1,000	-2.7
Total	1,897	2,287	20.6	9,436	11,398	20.8
Direct program spending						
Subsidies and other transfers						
Agriculture	93	22	-76.3	147	445	202.7
Foreign Affairs	180	23	-87.2	526	525	-0.2
Health	65	76	16.9	418	470	12.4
Human Resources Development	15	111	640.0	426	473	11.0
Indian and Northern Development	282	284	0.7	2,025	1,780	-12.1
Industry and Regional Development	150	166	10.7	515	595	15.5
Veterans Affairs	120	127	5.8	598	620	3.7
Other	72	348	383.3	958	918	-4.2
Total	977	1,157	18.4	5,613	5,826	3.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	79	85	7.6	450	485	7.8
Canada Mortgage and Housing Corporation	150	158	5.3	770	790	2.6
Other	141	116	-17.7	617	626	1.5
Total	370	359	-3.0	1,837	1,901	3.5
Operating and capital expenditures						
Defence	921	769	-16.5	3,899	3,996	2.5
All other departmental expenditures	2,098	1,906	-9.2	9,360	8,682	-7.2
Total	3,019	2,675	-11.4	13,259	12,678	-4.4
Total direct program spending	4,366	4,191	-4.0	20,709	20,405	-1.5
Total program expenditures	9,021	9,556	5.9	44,363	47,112	6.2
Public debt charges	3,521	3,353	-4.8	17,225	16,603	-3.6
Total budgetary expenditures	12,542	12,909	2.9	61,588	63,715	3.5
Memorandum item:						
Total transfers	5,632	6,522	15.8	29,267	32,533	11.2

- Excise taxes and duties increased by \$544 million, or 3.7 per cent. GST revenues were up 0.8 per cent, somewhat less than the underlying increase in consumer expenditures, due to faster processing of refunds and rebates compared to the same period last year. Customs import duties were up 7.6 per cent, while sales and excise taxes were up 11.0 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 8.0 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 7.7 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 20.8 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 1.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

The year-over-year decline in public debt charges of \$622 million reflected the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of \$1.9 billion (excluding foreign exchange transactions) for April 2001 to August 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.2 billion in the first five months of 2001-02, compared to a net requirement of \$6.0 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of \$11.1 billion and a net requirement of \$9.2 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$1.9 billion in the April 2001 to August 2001 period, compared to a source of \$4.9 billion in the same period last year.

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Table 4

The budgetary balance and financial requirements/source

	August		April to August	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	433	396	10,952	11,087
Loans, investments and advances				
Crown corporations	23	31	106	248
Other	-21	15	141	22
Total	2	46	247	270
Specified purpose accounts				
Canada Pension Plan Account	224	-334	-666	-1,196
Superannuation accounts	459	-22	1,474	-466
Other	1	-15	-215	39
Total	684	-371	593	-1,623
Other transactions	689	782	-6,850	-7,860
Total non-budgetary transactions	1,375	457	-6,010	-9,213
Financial requirements/source (excluding foreign exchange transactions)	1,808	853	4,942	1,874
Foreign exchange transactions	-2,373	-1,022	-1,105	-1,153
Net financial balance	-565	-169	3,837	721

Table 5

Net financial balance and net borrowings

	August		April to August	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	-565	-169	3,837	721
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	4,800	4,350	10,951	2,709
Canada Savings Bonds	-138	-75	-692	-311
Treasury bills	2,900	1,700	-13,850	-4,400
Other	-467	-1	483	-6
Total	7,095	5,974	-3,108	-2,008
Payable in foreign currencies				
Marketable bonds	0	0	-2,174	-1,576
Notes and loans				-41
Canada bills	-366	-207	-886	-1,008
Canada notes		0		-173
Total	-366	-207	-3,060	-2,798
Net change in borrowings	6,729	5,767	-6,168	-4,806
Change in cash balance	6,164	5,598	-2,331	-4,085

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Table 6

Condensed statement of assets and liabilities

	March 31, 2001 ¹	August 31, 2001 (\$ millions)	Change
Liabilities			
Accounts payable, accruals and allowances	43,644	44,421	777
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,720	-465
Canada Pension Plan (net of securities)	6,391	5,195	-1,196
Other pension and other accounts	7,253	7,292	39
Total pension and other accounts	142,829	141,207	-1,622
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	297,682	2,709
Treasury bills	88,700	84,300	-4,400
Canada Savings Bonds	26,099	25,789	-310
Other	3,473	3,468	-5
Subtotal	413,245	411,239	-2,006
Payable in foreign currencies	33,158	30,359	-2,799
Total unmaturred debt	446,403	441,598	-4,805
Total interest-bearing debt	589,232	582,805	-6,427
Total liabilities	632,876	627,226	-5,650
Assets			
Cash and accounts receivable	19,186	23,740	4,554
Foreign exchange accounts	50,270	51,423	1,153
Loans, investments and advances (net of allowances)	16,042	15,772	-270
Total assets	85,498	90,935	5,437
Accumulated deficit (net public debt)	547,378	536,291	-11,087

¹ Figures for 2000-01 were revised to reflect final results for the year as published in *Public Accounts of Canada - 2001*.

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Net financial source of \$0.7 billion for April 2001 to August 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$1.2 billion in the first five months of 2001-02, compared to a net requirement of \$1.1 billion in the same period in 2000-01.

With a budgetary surplus of \$11.1 billion, a net requirement of \$9.2 billion from non-budgetary transactions and a net requirement of \$1.2 billion from foreign exchange transactions, there was a net financial source of \$0.7 billion in the April 2001 to August 2001 period, compared to a net source of \$3.8 billion in the same period in 2000-01.

Net borrowings down \$4.8 billion for April 2001 to August 2001

Although there was a net financial source of only \$0.7 billion in the first five months of 2001-02, the Government did reduce its holding of market debt by \$4.8 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of August 2001 they stood at \$9.1 billion, down \$4.1 billion from March 31, 2001.

Note to Readers:

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at www.fin.gc.ca.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

September 2001: budgetary surplus of \$2.5 billion

There was a budgetary surplus of \$2.5 billion in September 2001, down \$1.3 billion from the revised surplus of \$3.8 billion in September 2000. Since 1996-97 large surpluses have been recorded in the month of September, primarily reflecting the inclusion of quarterly tax instalment payments. On a year-over-year basis budgetary revenues declined \$0.8 billion while program spending increased \$0.8 billion. Dampening the impact of these factors was a \$0.3-billion decline in public debt charges.

April 2001 to September 2001: budgetary surplus of \$13.6 billion

The budgetary surplus was estimated at \$13.6 billion for the April 2001 to September 2001 period, down \$1.2 billion from the surplus of \$14.7 billion reported in the same period of 2000-01. However, the results for 2001-02 include one-time revenue gains associated with higher personal income taxes paid on filing with respect to the strong increases in capital gains recorded in 2000, thereby overstating the underlying surplus for 2001-02.

As noted in *The Fiscal Monitor* for August 2001, a surplus was expected in September 2001, although smaller than that recorded in September 2000. In future months the cumulative surplus will fall. This reflects, in part, the ongoing impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. The effect of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year.

September 2001: budgetary results

Budgetary revenues declined \$0.8 billion, or 5.2 per cent, on a year-over-year basis. All of the major components were lower.

- Personal income tax revenues declined \$0.2 billion, or 2.8 per cent, primarily reflecting the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, as well as enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues declined \$0.1 billion, or 3.4 per cent, primarily reflecting higher refunds paid in September 2001 than in September 2000.
- Employment insurance (EI) premium revenues declined \$0.1 billion, or 6.6 per cent, reflecting both prior-year adjustments and the decline in

premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000), which more than offset the impact of the growth in the number of people employed and therefore paying premiums.

- Excise taxes and duties declined \$0.3 billion, or 10.7 per cent. This decline was entirely the result of lower goods and services tax (GST) revenues (\$0.4 billion), attributable to higher refunds and rebates and lower GST collected on imported goods and services.
- Non-tax revenues declined \$0.2 billion, or 19.9 per cent, largely reflecting the timing of receipts and lower interest earnings on bank balances.

The year-over-year increase in program spending of \$0.8 billion, or 9.0 per cent, primarily reflected strong increases in transfers to persons and other levels of government.



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Table 1

Summary statement of transactions

	September		April to September	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	15,664	14,852	88,204	89,653
Program spending	-8,412	-9,168	-52,773	-56,278
Operating surplus	7,252	5,684	35,431	33,375
Public debt charges	-3,472	-3,198	-20,697	-19,801
Budgetary balance (deficit/surplus)	3,780	2,486	14,734	13,574
Non-budgetary transactions	-152	-192	-6,162	-9,399
Financial requirements/source (excluding foreign exchange transactions)	3,628	2,294	8,572	4,175
Foreign exchange transactions	485	1,652	-620	499
Net financial balance	4,113	3,946	7,952	4,674
Net change in borrowings	-12,116	-9,449	-18,309	-14,254
Net change in cash balances	-8,003	-5,503	-10,357	-9,580
Cash balance at end of period			2,602	3,595

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- Major transfers to persons were up \$0.3 billion, or 10.6 per cent, primarily reflecting higher EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries. Elderly benefits were virtually unchanged due to the timing of payments between August and September.
- Major transfers to other levels of government were up \$0.4 billion, or 19.7 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was up slightly, as a decline in operating and capital

expenditures was more than offset by higher payments in the other components. The monthly fluctuations in these components are due in large part to the timing of payments and the completion of the transition to the new Financial Information Strategy.

Public debt charges, on a year-over year basis, were down \$0.3 billion, or 7.9 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

April 2001 to September 2001: budgetary results

Over the first six months of fiscal year 2001-02, the budgetary surplus was estimated at \$13.6 billion, down \$1.2 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were up \$1.4 billion, or 1.6 per cent, while public debt charges declined by \$0.9 billion, or 4.3 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up \$3.5 billion, or 6.6 per cent.

Table 2

Budgetary revenues

	September		Change	April to September		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	8,580	8,342	-2.8	43,443	43,417	-0.1
Corporate income tax	1,595	1,541	-3.4	11,349	12,372	9.0
Other income tax revenue	164	226	37.8	1,439	1,688	17.3
Total income tax	10,339	10,109	-2.2	56,231	57,477	2.2
Employment insurance premium revenues	1,437	1,342	-6.6	9,934	9,815	-1.2
Excise taxes and duties						
Goods and services tax	2,103	1,725	-18.0	12,398	12,098	-2.4
Customs import duties	220	243	10.5	1,339	1,447	8.1
Sales and excise taxes	798	819	2.6	4,240	4,642	9.5
Total excise taxes and duties	3,121	2,787	-10.7	17,977	18,187	1.2
Total tax revenues	14,897	14,238	-4.4	84,142	85,479	1.6
Non-tax revenues	767	614	-19.9	4,062	4,174	2.8
Total budgetary revenues	15,664	14,852	-5.2	88,204	89,653	1.6

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections declined marginally, as the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* offset higher final tax payments, received in April and May, with respect to the 2000 taxation year.
- Corporate income tax revenues were up \$1.0 billion, or 9.0 per cent. As noted in previous Fiscal Monitors, this current year-over-year increase primarily reflects the tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01 monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01.

With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading, as they do not yet reflect the decline in operating profits of Canadian corporations in the first half of 2001.

- EI premium revenues were down 1.2 per cent, as the decline in premium rates more than offset the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased \$0.2 billion, or 1.2 per cent. GST revenues were down 2.4 per cent, primarily attributable to higher refunds and rebates and lower collections on imports. Customs import duties were up 8.1 per cent, while sales and excise taxes were up 9.5 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 2.8 per cent.

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Table 3

Budgetary expenditures

	September		Change	April to September		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,120	2,121	0.0	11,953	12,501	4.6
Employment insurance benefits	671	967	44.1	5,056	5,897	16.6
Total	2,791	3,088	10.6	17,009	18,398	8.2
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	6,750	8,650	28.1
Fiscal transfers	993	1,046	5.3	5,831	6,236	6.9
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,233	-1,200	-2.7
Total	1,912	2,288	19.7	11,348	13,686	20.6
Direct program spending						
Subsidies and other transfers						
Agriculture	109	19	-82.6	255	463	81.6
Foreign Affairs	40	108	170.0	566	633	11.8
Health	148	121	-18.2	566	591	4.4
Human Resources Development	33	152	360.6	459	625	36.2
Indian and Northern Development	444	348	-21.6	2,470	2,129	-13.8
Industry and Regional Development	91	12	-86.8	606	607	0.2
Veterans Affairs	121	127	5.0	718	747	4.0
Other	76	234	207.9	1,032	1,148	11.2
Total	1,062	1,121	5.6	6,672	6,943	4.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	80	23.1	515	565	9.7
Canada Mortgage and Housing Corporation	150	158	5.3	920	948	3.0
Other	90	130	44.4	708	756	6.8
Total	305	368	20.7	2,143	2,269	5.9
Operating and capital expenditures						
Defence	874	842	-3.7	4,773	4,838	1.4
All other departmental expenditures	1,468	1,461	-0.5	10,828	10,144	-6.3
Total	2,342	2,303	-1.7	15,601	14,982	-4.0
Total direct program spending	3,709	3,792	2.2	24,416	24,194	-0.9
Total program expenditures	8,412	9,168	9.0	52,773	56,278	6.6
Public debt charges	3,472	3,198	-7.9	20,697	19,801	-4.3
Total budgetary expenditures	11,884	12,366	4.1	73,470	76,079	3.6
Memorandum item:						
Total transfers	5,765	6,497	12.7	35,029	39,027	11.4

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 8.2 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 20.6 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 0.9 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$0.9 billion reflected the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of \$4.2 billion (excluding foreign exchange transactions) for April 2001 to September 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$9.4 billion in the first six months of 2001-02, compared to a net requirement of \$6.2 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of \$13.6 billion and a net requirement of \$9.4 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$4.2 billion in the April 2001 to September 2001 period, compared to a source of \$8.6 billion in the same period last year.

Net financial source of \$4.7 billion for April 2001 to September 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of \$0.5 billion in the first six months of 2001-02, compared to a net requirement of \$0.6 billion in the same period in 2000-01.

The Fiscal Monitor

Table 4

The budgetary balance and financial requirements/source

	September		April to September	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	3,780	2,486	14,734	13,574
Loans, investments and advances				
Crown corporations	100	106	206	355
Other	42	-528	183	-507
Total	142	-422	389	-152
Specified purpose accounts				
Canada Pension Plan Account	128	578	-538	-618
Superannuation accounts	-14	-185	1,460	-652
Other	150	-6	-65	34
Total	264	387	857	-1,236
Other transactions	-558	-157	-7,408	-8,011
Total non-budgetary transactions	-152	-192	-6,162	-9,399
Financial requirements/source (excluding foreign exchange transactions)	3,628	2,294	8,572	4,175
Foreign exchange transactions	485	1,652	-620	499
Net financial balance	4,113	3,946	7,952	4,674

Table 5

Net financial balance and net borrowings

	September		April to September	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	4,113	3,946	7,952	4,674
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-4,933	-8,693	6,018	-5,983
Canada Savings Bonds	-98	-38	-790	-349
Treasury bills	-6,200	400	-20,050	-4,000
Other	-376	-4	82	-9
Total	-11,607	-8,335	-14,740	-10,341
Payable in foreign currencies				
Marketable bonds	0	0	-2,174	-1,576
Notes and loans				-41
Canada bills	-509	-1,114	-1,395	-2,123
Canada notes		0		-173
Total	-509	-1,114	-3,569	-3,913
Net change in borrowings	-12,116	-9,449	-18,309	-14,254
Change in cash balance	-8,003	-5,503	-10,357	-9,580

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	September 30, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	43,481	-163
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,533	-652
Canada Pension Plan (net of securities)	6,391	5,773	-618
Other pension and other accounts	7,253	7,287	34
Total pension and other accounts	142,829	141,593	-1,236
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	288,990	-5,983
Treasury bills	88,700	84,700	-4,000
Canada Savings Bonds	26,099	25,750	-349
Other	3,473	3,464	-9
Subtotal	413,245	402,904	-10,341
Payable in foreign currencies	33,158	29,245	-3,913
Total unmaturred debt	446,403	432,149	-14,254
Total interest-bearing debt	589,232	573,742	-15,490
Total liabilities	632,876	617,223	-15,654
Assets			
Cash and accounts receivable	19,186	17,454	-1,733
Foreign exchange accounts	50,270	49,771	-499
Loans, investments and advances (net of allowances)	16,042	16,194	152
Total assets	85,498	83,419	-2,080
Accumulated deficit (net public debt)	547,378	533,804	-13,574

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With a budgetary surplus of \$13.6 billion, a net requirement of \$9.4 billion from non-budgetary transactions and a net source of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$4.7 billion in the April 2001 to September 2001 period, compared to a net source of \$8.0 billion in the same period in 2000-01.

Net borrowings down \$14.3 billion for April 2001 to September 2001

Although there was a net financial source of only \$4.7 billion in the first six months of 2001-02, the Government did reduce its holding of market debt by \$14.3 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of September 2001 they stood at \$3.6 billion, down \$9.6 billion from March 31, 2001.

Note to Readers:

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital

acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at www.fin.gc.ca.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2001: budgetary deficit of \$0.3 billion

There was a budgetary deficit of \$0.3 billion in October 2001 compared to a deficit of \$0.1 billion in October 2000. However, the October 2000 estimate includes the one-time \$1-billion transfer to the Medical Equipment Fund, which resulted in the deficit that was recorded in that month. On a year-over-year basis, budgetary revenues increased \$0.3 billion while program spending increased \$0.6 billion. Public debt charges declined by \$0.1 billion.

April 2001 to October 2001: budgetary surplus of \$13.2 billion

The budgetary surplus was estimated at \$13.2 billion for the April 2001 to October 2001 period, down \$1.4 billion from the surplus of \$14.6 billion reported in the same period of 2000-01. However, the results for 2001-02 include one-time revenue gains associated with higher personal income taxes paid on filing with respect to the strong increases in capital gains recorded in 2000, thereby overstating the underlying surplus for 2001-02.

In future months the cumulative surplus will continue to fall, in part reflecting the ongoing impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and proposed in the 2001 budget. In addition, the effect of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year. As noted in the 2001 budget, any surplus reported at the end of 2001-02 will be allocated to the Africa Fund and to the Strategic Infrastructure Foundation.

October 2001: budgetary results

Budgetary revenues increased \$0.3 billion, or 2.2 per cent, on a year-over-year basis. Higher personal income tax revenues and excise taxes and duties more than offset declines in the other major revenue components.

- Personal income tax revenues increased \$0.4 billion, or 7.5 per cent. All of this increase is attributable to prior-year adjustments to the Canada Pension Plan (CPP) and employment insurance (EI) accounts, which dampened the October 2000 results. Gross remittances received include not only federal personal income tax liabilities but also provincial tax liabilities (as set out under the tax collection agreements with participating provinces) and employee

and employer contributions to the CPP and EI accounts. On a monthly basis deductions for these liabilities are based on estimates, with adjustments made when data become available from the Canada Customs and Revenue Agency. Based on taxation data for 1999, transfers of \$1.4 billion were made from personal income tax revenues to the CPP and EI accounts, thereby dampening personal income tax revenues in October 2000. No adjustments were made to the October 2001 results. Excluding the impact of these adjustments from the October 2000 results, personal income tax revenues would have been lower this year. This reflects the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*.



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Table 1

Summary statement of transactions

	October		April to October	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	13,324	13,620	101,528	103,272
Program spending	-10,063	-10,675	-62,837	-66,954
Operating surplus	3,261	2,945	38,691	36,318
Public debt charges	-3,406	-3,287	-24,103	-23,088
Budgetary balance (deficit/surplus)	-145	-342	14,588	13,230
Non-budgetary transactions	948	-1,530	-5,211	-10,930
Financial requirements/source (excluding foreign exchange transactions)	803	-1,872	9,377	2,300
Foreign exchange transactions	692	-1,010	72	-512
Net financial balance	1,495	-2,882	9,449	1,788
Net change in borrowings	3,658	4,546	-14,652	-9,708
Net change in cash balances	5,153	1,664	-5,203	-7,920
Cash balance at end of period			7,755	5,259

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

as well as enrichments to the Canada Child Tax Benefit announced in previous budgets. In addition, the slowdown in economic growth is restraining the overall growth in personal income tax revenues.

- Corporate income tax revenues declined \$0.4 billion, or 21.3 per cent, reflecting both higher refunds and a decline in gross collections.
- EI premium revenues declined \$0.4 billion, or 26.0 per cent, primarily reflecting the impact of the prior-year adjustments described above, which increased revenues in October 2000. In addition, premium rates are lower (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties increased \$0.8 billion, or 23.1 per cent. Most of this increase was attributable to higher goods and services tax (GST) revenues, primarily reflecting the timing of receipts (September 2001 revenues were \$0.3 billion lower than in September 2000).

- Non-tax revenues declined 5.1 per cent, largely reflecting the timing of receipts and lower interest earnings on bank balances.

The year-over-year increase in program spending of \$0.6 billion, or 6.1 per cent, primarily reflects strong increases in transfers to persons and in direct program spending.

- Major transfers to persons were up \$0.4 billion, or 15.3 per cent, primarily reflecting higher EI benefit payments, which were up 43.5 per cent. The increase in EI benefit payments reflects the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries. Elderly benefits increased 4.9 per cent.
- Major transfers to other levels of government were down \$0.6 billion, or 21.0 per cent. More than all of this decline was attributable to the payment of \$1 billion in trust to the provinces and territories for new medical equipment as part of the September 2000 Health Accord.

Table 2

Budgetary revenues

	October			April to October		
	2000	2001	Change	2000-01	2001-02	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	5,397	5,800	7.5	48,840	49,218	0.8
Corporate income tax	1,853	1,459	-21.3	13,201	13,832	4.8
Other income tax revenue	381	378	-0.8	1,820	2,065	13.5
Total income tax	7,631	7,637	0.1	63,861	65,115	2.0
Employment insurance premium revenues	1,614	1,194	-26.0	11,548	11,009	-4.7
Excise taxes and duties						
Goods and services tax	2,325	3,172	36.4	14,723	15,269	3.7
Customs import duties	230	332	44.3	1,569	1,777	13.3
Sales and excise taxes	706	509	-27.9	4,946	5,150	4.1
Total excise taxes and duties	3,261	4,013	23.1	21,238	22,196	4.5
Total tax revenues	12,506	12,844	2.7	96,647	98,320	1.7
Non-tax revenues	818	776	-5.1	4,881	4,952	1.5
Total budgetary revenues	13,324	13,620	2.2	101,528	103,272	1.7

Excluding the impact of this special payment, transfers increased by \$0.4 billion, or 20.7 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.8 billion, or 18.1 per cent. All major components were higher, except payments to Crown corporations. The monthly fluctuations in these components are due in large part to the timing of payments and the completion of the transition to the new Financial Information Strategy.

Public debt charges, on a year-over year basis, were down \$0.1 billion, or 3.5 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

April 2001 to October 2001: budgetary results

Over the first seven months of fiscal year 2001-02, the budgetary surplus was estimated at \$13.2 billion, down \$1.4 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were up \$1.7 billion, or 1.7 per cent, while public debt charges declined by \$1.0 billion, or 4.2 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up \$4.1 billion, or 6.6 per cent.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections increased marginally, as higher final tax payments received in April and May with respect to the 2000 taxation year, as well as prior-year adjustments affecting the October 2000 results, offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.

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Table 3

Budgetary expenditures

	October		Change	April to October		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,037	2,137	4.9	13,990	14,638	4.6
Employment insurance benefits	750	1,076	43.5	5,806	6,973	20.1
Total	2,787	3,213	15.3	19,796	21,611	9.2
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	7,875	10,092	28.2
Fiscal transfers	976	1,046	7.2	6,807	7,281	7.0
Medical Equipment Fund	1,000			1,000		
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,439	-1,400	-2.7
Total	2,895	2,288	-21.0	14,243	15,973	12.1
Direct program spending						
Subsidies and other transfers						
Agriculture	7	40	471.4	263	504	91.6
Foreign Affairs	212	245	15.6	778	879	13.0
Health	67	107	59.7	633	698	10.3
Human Resources Development	120	139	15.8	579	764	32.0
Indian and Northern Development	176	313	77.8	2,646	2,442	-7.7
Industry and Regional Development	125	201	60.8	732	808	10.4
Veterans Affairs	122	121	-0.8	841	868	3.2
Other	57	233	308.8	1,087	1,388	27.7
Total	886	1,399	57.9	7,559	8,351	10.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	100	83	-17.0	615	648	5.4
Canada Mortgage and Housing Corporation	150	158	5.3	1,070	1,106	3.4
Other	167	170	1.8	874	927	6.1
Total	417	411	-1.4	2,559	2,681	4.8
Operating and capital expenditures						
Defence	989	1,037	4.9	5,762	5,876	2.0
All other departmental expenditures	2,089	2,327	11.4	12,918	12,462	-3.5
Total	3,078	3,364	9.3	18,680	18,338	-1.8
Total direct program spending	4,381	5,174	18.1	28,798	29,370	2.0
Total program expenditures	10,063	10,675	6.1	62,837	66,954	6.6
Public debt charges	3,406	3,287	-3.5	24,103	23,088	-4.2
Total budgetary expenditures	13,469	13,962	3.7	86,940	90,042	3.6
Memorandum item:						
Total transfers	6,568	6,900	5.1	41,598	45,935	10.4

- Corporate income tax revenues were up \$0.6 billion, or 4.8 per cent. The increase in year-to-date revenues has dropped significantly in recent months as corporations are revising their instalment payments to reflect lower corporate profits in 2001.
- EI premium revenues were down \$0.5 billion, or 4.7 per cent, as the impact of prior-year adjustments affecting the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.0 billion, or 4.5 per cent. GST revenues were up 3.7 per cent, customs import duties were up 13.3 per cent and sales and excise taxes were up 4.1 per cent.
- Non-tax revenues were up 1.5 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 9.2 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 12.1 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces. The year-to-date results are also affected by the special payment of \$1 billion to the Medical Equipment Fund in October 2000.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government,

increased 2.0 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$1.0 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of \$2.3 billion (excluding foreign exchange transactions) for April 2001 to October 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.9 billion in the first seven months of 2001-02, compared to a net requirement of \$5.2 billion in the same period in 2000-01. Traditionally, there are large requirements in the first part of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results. In addition, transfers to the Canada Pension Plan Account and Public Sector Pension Investment Board resulted in higher requirements this year than in the same period last year.

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Table 4

The budgetary balance and financial requirements/source

	October		April to October	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	-145	-342	14,588	13,230
Loans, investments and advances				
Crown corporations	50	24	256	379
Other	-961	-423	-778	-930
Total	-911	-399	-522	-551
Specified purpose accounts				
Canada Pension Plan Account	871	-745	333	-1,363
Superannuation accounts	175	-154	1,636	-807
Other	9	-17	-56	16
Total	1,055	-916	1,913	-2,154
Other transactions	804	-215	-6,602	-8,225
Total non-budgetary transactions	948	-1,530	-5,211	-10,930
Financial requirements/source (excluding foreign exchange transactions)	803	-1,872	9,377	2,300
Foreign exchange transactions	692	-1,010	72	-512
Net financial balance	1,495	-2,882	9,449	1,788

Table 5

Net financial balance and net borrowings

	October		April to October	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	1,495	-2,882	9,449	1,788
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,931	1,435	9,949	-4,548
Canada Savings Bonds	-191	120	-981	-469
Treasury bills	-300	2,800	-20,350	-1,200
Other	109	0	191	-9
Total	3,549	4,355	-11,191	-6,226
Payable in foreign currencies				
Marketable bonds	-28	0	-2,202	-1,576
Notes and loans				-41
Canada bills	173	431	-1,223	-1,692
Canada notes	-36	0	-36	-173
Total	109	431	-3,461	-3,482
Net change in borrowings	3,658	4,786	-14,652	-9,708
Change in cash balance	5,153	1,904	-5,203	-7,920

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	October 31, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	32,130	-11,514
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,378	-807
Canada Pension Plan (net of securities)	6,391	5,028	-1,363
Other pension and other accounts	7,253	7,269	16
Total pension and other accounts	142,829	140,675	-2,154
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	290,425	-4,548
Treasury bills	88,700	87,500	-1,200
Canada Savings Bonds	26,099	25,630	-469
Other	3,473	3,464	-9
Subtotal	413,245	407,019	-6,226
Payable in foreign currencies	33,158	29,676	-3,482
Total unmaturred debt	446,403	436,695	-9,708
Total interest-bearing debt	589,232	577,370	-11,862
Total liabilities	632,876	609,499	-23,377
Assets			
Cash and accounts receivable	19,186	7,977	-11,210
Foreign exchange accounts	50,270	50,782	512
Loans, investments and advances (net of allowances)	16,042	16,593	551
Total assets	85,498	75,351	-10,147
Accumulated deficit (net public debt)	547,378	534,148	-13,230

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As a result, with a budgetary surplus of \$13.2 billion and a net requirement of \$10.9 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$2.3 billion in the April 2001 to October 2001 period, compared to a source of \$9.4 billion in the same period last year.

Net financial source of \$1.8 billion for April 2001 to October 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.5 billion in the first seven months of 2001-02, compared to a net source of \$0.1 billion in the same period in 2000-01.

With a budgetary surplus of \$13.2 billion, a net requirement of \$10.9 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$1.8 billion in the April 2001 to October 2001 period, compared to a net source of \$9.4 billion in the same period in 2000-01.

Net borrowings down \$9.7 billion for April 2001 to October 2001

Although there was a net financial source of only \$1.8 billion in the first seven months of 2001-02, the Government did reduce its holding of market debt by \$9.7 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of October 2001 they stood at \$5.3 billion, down \$7.9 billion from March 31, 2001.

Note to Readers:

In the 2000 budget the Government set a target date of 2001-02 for implementation of full accrual accounting. However, it is government convention that the audited financial statements report be presented on the same basis of accounting as in the budget. Given the timing of the 2001 budget and the fact that important components of the information required to implement full accrual accounting have not yet been verified and audited, it is not possible to move to a full accrual basis of accounting at this time. Therefore, the Government has decided to delay the implementation of full accrual accounting for at least one year.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

November 2001: budgetary deficit of \$1.2 billion

There was a budgetary deficit of \$1.2 billion in November 2001, compared to a surplus of \$0.9 billion in November 2000. Budgetary revenues declined by \$1.5 billion on a year-over-year basis, while program spending was \$0.8 billion higher. Public debt charges declined by \$0.1 billion.

April 2001 to November 2001: budgetary surplus of \$12.0 billion

The budgetary surplus was estimated at \$12.0 billion for the April 2001 to November 2001 period, down \$3.5 billion from the surplus of \$15.5 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before the December 2001 budget. In addition, the effect of the slowing economy on most of the major revenue components and employment insurance (EI) benefits is also adversely affecting the fiscal results. These results are consistent with the expected results for the year as a whole as outlined in the December 2001 budget. As noted in the budget, any surplus reported at the end of 2001-02 will be allocated to the Africa Fund and the Strategic Infrastructure Foundation.

November 2001: budgetary results

Budgetary revenues declined \$1.5 billion, or 10.9 per cent, on a year-over-year basis. All major revenue components, except other income tax revenues, were lower.

- Personal income tax revenues were marginally lower. This reflects the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, as well as enrichments to the Canada Child Tax Benefit announced in previous budgets. In addition, the slowdown in economic growth is restraining the overall growth in personal income tax revenues.
- Corporate income tax revenues declined \$0.6 billion, or 33.3 per cent, primarily attributable to higher refunds.
- EI premium revenues declined 3.4 per cent, primarily reflecting the impact of lower premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties declined \$0.7 billion, or 18.5 per cent. Throughout most of the current fiscal year, this component has been affected by the timing of receipts and processing of refunds. For example, in October 2001, revenues were up \$0.8 billion on a year-over-year basis, accounting for part of the weakness in the current month.
- Non-tax revenues declined 22.4 per cent, largely reflecting the timing of receipts.



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Table 1

Summary statement of transactions

	November		April to November	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	13,780	12,277	115,308	115,548
Program spending	-9,401	-10,201	-72,236	-77,158
Operating surplus	4,379	2,076	43,072	38,390
Public debt charges	-3,436	-3,319	-27,539	-26,406
Budgetary balance (deficit/surplus)	943	-1,243	15,533	11,984
Non-budgetary transactions	1,145	6	-4,068	-10,923
Financial requirements/source (excluding foreign exchange transactions)	2,088	-1,237	11,465	1,061
Foreign exchange transactions	-2,004	10	-1,933	-502
Net financial balance	84	-1,227	9,532	559
Net change in borrowings	4,906	9,568	-9,746	-141
Net change in cash balances	4,990	8,341	-214	418
Cash balance at end of period			7,755	5,259

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Program spending increased by \$0.8 billion, or 8.5 per cent, on a year-over-year basis. Among the major components:

- Major transfers to persons were up \$0.2 billion, or 8.4 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up \$0.3 billion, or 15.7 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.2 billion, or 5.5 per cent. All major components were higher except all other departmental operating and capital expenditures. The monthly fluctuations in these components are due in large part to the timing of payments and the completion of the transition to the new Financial Information Strategy.

Public debt charges, on a year-over year basis, were down \$0.1 billion, or 3.4 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Table 2

Budgetary revenues

	November		Change	April to November		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	6,150	6,127	-0.4	54,990	55,345	0.6
Corporate income tax	1,879	1,253	-33.3	15,080	15,084	0.0
Other income tax revenue	244	276	13.1	2,064	2,342	13.5
Total income tax	8,273	7,656	-7.5	72,134	72,771	0.9
Employment insurance premium revenues	1,073	1,036	-3.4	12,622	12,046	-4.6
Excise taxes and duties						
Goods and services tax	2,619	2,106	-19.6	17,340	17,375	0.2
Customs import duties	303	174	-42.6	1,872	1,951	4.2
Sales and excise taxes	744	709	-4.7	5,691	5,861	3.0
Total excise taxes and duties	3,666	2,989	-18.5	24,903	25,187	1.1
Total tax revenues	13,012	11,681	-10.2	109,659	110,004	0.3
Non-tax revenues	768	596	-22.4	5,649	5,544	-1.9
Total budgetary revenues	13,780	12,277	-10.9	115,308	115,548	0.2

April 2001 to November 2001: budgetary results

Over the first eight months of fiscal year 2001-02, the budgetary surplus was estimated at \$12.0 billion, down \$3.5 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were virtually unchanged from last year, while public debt charges declined by \$1.1 billion, or 4.1 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up \$4.9 billion, or 6.8 per cent.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections increased marginally, as higher final tax payments received in April and May with respect to the 2000 taxation year, as well as prior-year adjustments affecting the October 2000 results, offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.
- Corporate income tax revenues were virtually unchanged, as higher refunds offset increased gross receipts.

- EI premium revenues were down 4.6 per cent, as the impact of prior-year adjustments, which affected the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$0.3 billion, or 1.1 per cent. Goods and services tax revenues were up marginally, customs import duties were up 4.2 per cent, while sales and excise taxes were up 3.0 per cent.
- Non-tax revenues were down 1.9 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 9.1 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.

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Table 3

Budgetary expenditures

	November		Change	April to November		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,051	2,137	4.2	16,040	16,775	4.6
Employment insurance benefits	910	1,073	17.9	6,716	8,046	19.8
Total	2,961	3,210	8.4	22,756	24,821	9.1
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	9,000	11,533	28.1
Fiscal transfers	1,020	1,034	1.4	7,827	8,315	6.2
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-1,644	-1,632	-0.7
Total	1,939	2,243	15.7	16,183	18,216	12.6
Direct program spending						
Subsidies and other transfers						
Agriculture	23	21	-8.7	286	525	83.6
Foreign Affairs	125	121	-3.2	904	1,000	10.6
Health	107	153	43.0	739	851	15.2
Human Resources Development	28	142	407.1	607	906	49.3
Indian and Northern Development	316	290	-8.2	2,962	2,733	-7.7
Industry and Regional Development	90	151	67.8	821	958	16.7
Veterans Affairs	117	132	12.8	958	1,000	4.4
Other	287	254	-11.5	1,376	1,642	19.3
Total	1,093	1,264	15.6	8,653	9,615	11.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	70	16.7	675	718	6.4
Canada Mortgage and Housing Corporation	150	183	22.0	1,220	1,289	5.7
Other	75	160	113.3	949	1,087	14.5
Total	285	413	44.9	2,844	3,094	8.8
Operating and capital expenditures						
Defence	1,072	1,119	4.4	6,835	6,996	2.4
All other departmental expenditures	2,051	1,952	-4.8	14,965	14,416	-3.7
Total	3,123	3,071	-1.7	21,800	21,412	-1.8
Total direct program spending	4,501	4,748	5.5	33,297	34,121	2.5
Total program expenditures	9,401	10,201	8.5	72,236	77,158	6.8
Public debt charges	3,436	3,319	-3.4	27,539	26,406	-4.1
Total budgetary expenditures	12,837	13,520	5.3	99,775	103,564	3.8
Memorandum item:						
Total transfers	5,993	6,717	12.1	47,592	52,652	10.6

- Major transfers to other levels of government were up 12.6 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements. The year-to-date results are also affected by the special payment of \$1 billion to the Medical Equipment Fund in October 2000.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 2.5 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$1.1 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of \$1.1 billion (excluding foreign exchange transactions) for April 2001 to November 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.9 billion in the first eight months of 2001-02, compared to a net requirement of \$4.1 billion in the same period in 2000-01. Traditionally, there are large requirements in the first part of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results. In addition, transfers of applicable pension assets to those Crown corporations setting up their own pension plans and higher transfers to the Canada Pension Plan Account resulted in higher requirements this year than in the same period last year.

As a result, with a budgetary surplus of \$12.0 billion and a net requirement of \$10.9 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$1.1 billion in the April 2001 to November 2001 period, compared to a source of \$11.5 billion in the same period of 2000-01.

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Table 4

The budgetary balance and financial requirements/source

	November		April to November	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/ surplus)	943	-1,243	15,533	11,984
Loans, investments and advances				
Crown corporations	52	50	308	428
Other	-91	-3	-869	-931
Total	-39	47	-561	-503
Specified purpose accounts				
Canada Pension Plan Account	-360	-584	-28	-1,947
Superannuation accounts	71	-747	1,706	-1,552
Other	16	62	-40	78
Total	-273	-1,269	1,638	-3,421
Other transactions	1,457	1,228	-5,145	-6,999
Total non-budgetary transactions	1,145	6	-4,068	-10,923
Financial requirements/source (excluding foreign exchange transactions)	2,088	-1,237	11,465	1,061
Foreign exchange transactions	-2,004	10	-1,933	-502
Net financial balance	84	-1,227	9,532	559

Table 5

Net financial balance and net borrowings

	November		April to November	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	84	-1,227	9,532	559
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	5,500	5,351	15,449	802
Canada Savings Bonds	-243	-2,043	-1,224	-2,512
Treasury bills	-400	6,700	-20,750	5,500
Other	-153	-12	38	-21
Total	4,704	9,996	-6,487	3,769
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans				-41
Canada bills	202	-428	-1,021	-2,120
Canada notes	0	0	-36	-173
Total	202	-428	-3,259	-3,910
Net change in borrowings	4,906	9,568	-9,746	-141
Change in cash balance	4,990	8,341	-214	418

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	November 30, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	35,264	-8,380
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,633	-1,552
Canada Pension Plan (net of securities)	6,391	4,444	-1,947
Other pension and other accounts	7,253	7,331	78
Total pension and other accounts	142,829	139,408	-3,421
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	295,775	802
Treasury bills	88,700	94,200	5,500
Canada Savings Bonds	26,099	23,587	-2,512
Other	3,473	3,452	-21
Subtotal	413,245	417,014	3,769
Payable in foreign currencies	33,158	29,248	-3,910
Total unmaturred debt	446,403	446,262	-141
Total interest-bearing debt	589,232	585,671	-3,561
Total liabilities	632,876	620,935	-11,941
Assets			
Cash and accounts receivable	19,186	18,225	-961
Foreign exchange accounts	50,270	50,772	502
Loans, investments and advances (net of allowances)	16,042	16,545	503
Total assets	85,498	85,541	44
Accumulated deficit (net public debt)	547,378	535,394	-11,984

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Net financial source of \$0.6 billion for April 2001 to November 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.5 billion in the first eight months of 2001-02, compared to a net requirement of \$1.9 billion in the same period in 2000-01.

With a budgetary surplus of \$12.0 billion, a net requirement of \$10.9 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$0.6 billion in the April 2001 to November 2001 period, compared to a net source of \$9.5 billion in the same period in 2000-01.

Net borrowings down \$0.1 billion for April 2001 to November 2001

At November 30, 2001, the Government's holdings of unmatured debt (debt issued on credit markets) were marginally lower than at March 31, 2001. However, it has reduced its liabilities to the federal government employees' pension plan and other accounts by \$3.4 billion. As a result, at November 30, 2001, interest-bearing debt was \$3.6 billion lower than at March 31, 2001. Cash balances were increased by \$0.4 billion, to stand at \$5.3 billion at November 30, 2001. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.



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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

December 2001: budgetary surplus of \$1.5 billion

There was a budgetary surplus of \$1.5 billion in December 2001, \$1.9 billion lower than the surplus of \$3.3 billion reported in December 2000. On a year-over-year basis, budgetary revenues were \$0.6 billion lower, primarily attributable to lower corporate income tax revenues, reflecting the weakness in corporate profits. Program spending was \$1.5 billion higher, largely attributable to higher employment insurance (EI) benefits and to higher departmental operating and capital expenditures in response to the events of September 11th. Public debt charges declined by \$0.3 billion, primarily reflecting the decline in interest rates. Given the monthly pattern of budgetary revenues, a surplus was expected in December.

April 2001 to December 2001: budgetary surplus of \$13.4 billion

The budgetary surplus was estimated at \$13.4 billion for the April 2001 to December 2001 period, down \$5.4 billion from the surplus of \$18.8 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before the December 2001 budget. In addition, the effect of the slowing economy on most of the major revenue components and EI benefits is also adversely affecting the fiscal results, compared to the same period last year. The results to date are consistent with the expected results for the year as a whole as outlined in the December 2001 budget.

December 2001: budgetary results

Budgetary revenues declined \$0.6 billion, or 3.9 per cent, on a year-over-year basis, primarily attributable to lower corporate income tax revenues.

- Personal income tax revenues were marginally higher. The overall growth has been restrained by the slowdown in the economy, the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, and enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues declined \$0.7 billion, or 28.9 per cent, reflecting the much lower profit outcome for 2001 compared to 2000, as well as the tax rate reductions effective January 1, 2001.
- EI premium revenues declined 1.2 per cent, primarily reflecting the impact of lower premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties increased \$0.2 billion, or 9.0 per cent, recovering some of the decline reported in November. Increases were reported in all components. The increases in goods and services tax (GST) revenues and customs import duties partly reflect recoveries from delays in processing import goods associated with the events of September 11th. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excises taxes.
- Non-tax revenues declined 24.5 per cent, largely reflecting the impact of lower interest rates.



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Table 1
Summary statement of transactions

	December		April to December	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	16,310	15,680	131,618	131,229
Program spending	-9,515	-11,016	-81,751	-88,175
Operating surplus	6,795	4,664	49,867	43,054
Public debt charges	-3,486	-3,206	-31,024	-29,612
Budgetary balance (deficit/surplus)	3,309	1,458	18,843	13,442
Non-budgetary transactions	-5,620	-3,067	-9,691	-13,992
Financial requirements/source (excluding foreign exchange transactions)	-2,311	-1,609	9,152	-550
Foreign exchange transactions	609	-142	-1,323	-643
Net financial balance	-1,702	-1,751	7,829	-1,193
Net change in borrowings	-6,870	-6,858	-16,616	-6,997
Net change in cash balances	-8,572	-8,609	-8,787	-8,190
Cash balance at end of period			4,167	4,992

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Program spending increased by \$1.5 billion, or 15.8 per cent, on a year-over-year basis. Most of the increase is attributable to higher EI benefits and increased departmental operating and capital expenditures.

- Major transfers to persons were up \$0.7 billion, or 24.1 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries due to the slowdown in the economy.
- Major transfers to other levels of government were up \$0.1 billion, or 6.8 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The decline in fiscal transfers is attributable to the timing of payments.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.6 billion, or 14.5 per cent, attributable to incremental spending related to the response to the events of September 11th.

Public debt charges, on a year-over year basis, were down \$0.3 billion, or 8.0 per cent, due primarily to the decline in the average effective interest rate on the debt.

April 2001 to December 2001: budgetary results

Over the first nine months of fiscal year 2001-02, the budgetary surplus was estimated at \$13.4 billion, down \$5.4 billion from the surplus reported in the same period of 2000-01. Program spending was up \$6.4 billion while budgetary revenues were down \$0.4 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down \$1.4 billion.

Table 2
Budgetary revenues

	December		Change	April to December		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	9,149	9,191	0.5	64,139	64,536	0.6
Corporate income tax	2,432	1,728	-28.9	17,512	16,812	-4.0
Other income tax revenue	283	311	9.9	2,348	2,653	13.0
Total income tax	11,864	11,230	-5.3	83,999	84,001	0.0
Employment insurance premium revenues	964	952	-1.2	13,586	12,998	-4.3
Excise taxes and duties						
Goods and services tax	1,773	1,815	2.4	19,115	19,190	0.4
Customs import duties	202	295	46.0	2,074	2,246	8.3
Sales and excise taxes	620	718	15.8	6,309	6,581	4.3
Total excise taxes and duties	2,595	2,828	9.0	27,498	28,017	1.9
Total tax revenues	15,423	15,010	-2.7	125,083	125,016	-0.1
Non-tax revenues	887	670	-24.5	6,535	6,213	-4.9
Total budgetary revenues	16,310	15,680	-3.9	131,618	131,229	-0.3

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections increased marginally, as higher final tax payments received in April and May with respect to the 2000 taxation year and the effect of prior-year adjustments affecting the October 2000 results offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.
- Corporate income tax revenues declined 4.0 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates. Large year-over-year declines are expected over the balance of the fiscal year, attributable to lower final settlement payments, reflecting the decline in corporate profits in 2001 and the December 2001 budget decision to allow small businesses to defer payments of their corporate income tax instalments for the months of January, February and March 2002.

- EI premium revenues were down 4.3 per cent, as the impact of prior-year adjustments, which affected the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$0.5 billion, or 1.9 per cent. GST revenues were up marginally, customs import duties were up 8.3 per cent, while sales and excise taxes were up 4.3 per cent.
- Non-tax revenues were down 4.9 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 10.8 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation.

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Table 3

Budgetary expenditures

	December		Change	April to December		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,038	2,151	5.5	18,079	18,926	4.7
Employment insurance benefits	902	1,497	66.0	7,618	9,543	25.3
Total	2,940	3,648	24.1	25,697	28,469	10.8
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	10,125	12,975	28.1
Fiscal transfers	1,194	1,048	-12.2	9,021	9,363	3.8
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-1,850	-1,865	0.8
Total	2,113	2,257	6.8	18,296	20,473	11.9
Direct program spending						
Subsidies and other transfers						
Agriculture	97	41	-57.7	383	566	47.8
Foreign Affairs	122	169	38.5	1,024	1,169	14.2
Health	80	79	-1.3	819	929	13.4
Human Resources Development	208	103	-50.5	815	1,008	23.7
Indian and Northern Development	306	323	5.6	3,267	3,055	-6.5
Industry and Regional Development	192	155	-19.3	1,013	1,113	9.9
Veterans Affairs	119	130	9.2	1,078	1,130	4.8
Other	198	234	18.2	1,576	1,873	18.8
Total	1,322	1,234	-6.7	9,975	10,843	8.7
Payments to Crown corporations						
Canadian Broadcasting Corporation	103	133	29.1	778	851	9.4
Canada Mortgage and Housing Corporation	150	233	55.3	1,370	1,522	11.1
Other	190	135	-28.9	1,137	1,223	7.6
Total	443	501	13.1	3,285	3,596	9.5
Operating and capital expenditures						
Defence	814	1,089	33.8	7,648	8,085	5.7
All other departmental expenditures	1,883	2,287	21.5	16,850	16,709	-0.8
Total	2,697	3,376	25.2	24,498	24,794	1.2
Total direct program spending	4,462	5,111	14.5	37,758	39,233	3.9
Total program expenditures	9,515	11,016	15.8	81,751	88,175	7.9
Public debt charges	3,486	3,206	-8.0	31,024	29,612	-4.6
Total budgetary expenditures	13,001	14,222	9.4	112,775	117,787	4.4
Memorandum item:						
Total transfers	6,375	7,139	12.0	53,968	59,785	10.8

The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.

- Major transfers to other levels of government were up 11.9 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 3.9 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$1.4 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial requirement of \$0.6 billion (excluding foreign exchange transactions) for April 2001 to December 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary

balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$14.0 billion in the first nine months of 2001-02, compared to a net requirement of \$9.7 billion in the same period in 2000-01. The increase to date is attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans and higher transfers to the Canada Pension Plan Account.

As a result, with a budgetary surplus of \$13.4 billion and a net requirement of \$14.0 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$0.6 billion in the April 2001 to December 2001 period, compared to a source of \$9.2 billion in the same period of 2000-01.

Net financial requirement of \$1.2 billion for April 2001 to December 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$0.6 billion in the first nine months of 2001-02, compared to a net requirement of \$1.3 billion in the same period in 2000-01.

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Table 4

The budgetary balance and financial requirements/source

	December		April to December	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	3,309	1,458	18,843	13,442
Loans, investments and advances				
Crown corporations	40	70	348	499
Other	28	-199	-843	-1,131
Total	68	-129	-495	-632
Specified purpose accounts				
Canada Pension Plan Account	-497	-94	-524	-2,041
Superannuation accounts	-152	44	1,554	-1,508
Other	-8	-21	-48	57
Total	-657	-71	982	-3,492
Other transactions	-5,031	-2,867	-10,178	-9,868
Total non-budgetary transactions	-5,620	-3,067	-9,691	-13,992
Financial requirements/source (excluding foreign exchange transactions)	-2,311	-1,609	9,152	-550
Foreign exchange transactions	609	-142	-1,323	-643
Net financial balance	-1,702	-1,751	7,829	-1,193

Table 5

Net financial balance and net borrowings

	December		April to December	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	-1,702	-1,751	7,829	-1,193
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-7,130	-6,663	8,319	-5,860
Treasury bills	-400	800	-21,150	6,300
Canada Savings Bonds	20	-107	-1,204	-2,618
Other	-133	-1	-95	-22
Total	-7,643	-5,971	-14,130	-2,200
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans				-41
Canada bills	773	-887	-248	-3,007
Canada notes	0	0	-36	-173
Total	773	-887	-2,486	-4,797
Net change in borrowings	-6,870	-6,858	-16,616	-6,997
Change in cash balance	-8,572	-8,609	-8,787	-8,190

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	December 31, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	31,518	-12,126
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,677	-1,508
Canada Pension Plan (net of securities)	6,391	4,350	-2,041
Other pension and other accounts	7,253	7,310	57
Total pension and other accounts	142,829	139,337	-3,492
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	289,113	-5,860
Treasury bills	88,700	95,000	6,300
Canada Savings Bonds	26,099	23,481	-2,618
Other	3,473	3,451	-22
Subtotal	413,245	411,045	-2,200
Payable in foreign currencies	33,158	28,361	-4,797
Total unmaturred debt	446,403	439,406	-6,997
Total interest-bearing debt	589,232	578,744	-10,488
Total liabilities	632,876	610,262	-22,614
Assets			
Cash and accounts receivable	19,186	8,739	-10,447
Foreign exchange accounts	50,270	50,913	643
Loans, investments and advances (net of allowances)	16,042	16,674	632
Total assets	85,498	76,326	-9,172
Accumulated deficit (net public debt)	547,378	533,936	-13,442

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With a budgetary surplus of \$13.4 billion, a net requirement of \$14.0 billion from non-budgetary transactions and a net requirement of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$1.2 billion in the April 2001 to December 2001 period, compared to a net source of \$7.8 billion in the same period in 2000-01.

Net borrowings down \$7.0 billion for April 2001 to December 2001

Although there was a net financial requirement of \$1.2 billion in the first nine months of 2001-02, the Government did reduce its holding of market debt by \$7.0 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of December 2001 they stood at \$5.0 billion, down \$8.2 billion from March 31, 2001.

